

# Committee on Resources

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For the  
Wyoming Mining Association**

Before The  
Subcommittee on Energy and Mineral Resources  
Committee on Resources  
Public Hearing on Bill H.R. 4625  
“ The Soda Ash Royalty Reduction Act of 2004”

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Madam Chairwoman, my name is Jim Pearce. I am the Manufacturing Director and Resident Manager of the FMC Corporation Alkali Chemicals facility in Green River Wyoming. I testify today on behalf of the Trona Minerals Committee of the Wyoming Mining Association, comprised of the four soda ash producers in Southwest Wyoming. In addition to FMC Wyoming, these include OCI Wyoming LP, General Chemical, and Solvay Minerals. Together we account for over 90% of the domestic production of soda ash, for almost 2300 jobs in southwest Wyoming, and for an over \$500 million surplus to the overall U.S. balance of trade. The remaining (10%) of soda ash production in the US occurs in California and Colorado.

I would like to begin by thanking you, Chairwoman Cubin, for your leadership on a number of issues that are critical to the competitiveness of U.S. producers of natural soda ash. You have supported this industry by seeking to increase domestic energy production, opening new international markets, and reducing the burden of regulatory costs. Without your leadership, the US natural soda ash would not be the competitive a force it is in the world today. The legislation which is the subject of this hearing today, is the most recent example of the way you are assisting us to reduce costs and maintain our leadership position.

As you are well aware, the key to the future of the US soda ash industry is continuing export growth. Increased exports mean job growth for southwest Wyoming. Our industry is committed to increasing its share of the world's growing demand for soda ash; indeed we must, if we are to remain viable. Since the early 1980's domestic demand for soda ash has remained constant at approximately 7 million tons per year, and there remains no foreseeable growth in critical US markets for flat glass or glass packaging that will lead to future growth. Thus the prospects for growth in our industry hinge on growing our markets offshore.

To put in perspective the challenge before us, in the fifteen years between 1982 and 1997, this industry enjoyed a steady and significant growth in exports. Just in the five years between 1992 and 1997, export volume grew 100%. But in the years since 1997, export growth has been marginal. Exports in 2003 were only 4% above their 1997 levels. We are not satisfied with the current rate of export growth, nor should we be. The developing economies of China, Southeast Asia, Latin America and Africa are growing, and so too should demand for a US soda ash.

However, as you well know, we are not alone in competing for these new markets. As recently as 1989, China imported over 1 million ton per year of soda ash. By next year, we expect them to be a 1.5 million ton net exporter. Moreover, China has now become the world's largest producer of soda ash, though hardly its most efficient. A growing number of inefficient, state owned and state supported Chinese producers have added soda ash to their growing list of manufacturing exports and are flooding international markets with low cost material. This, in spite of the fact that their own synthetic production facilities are energy intensive and

their environmental and worker safety standards are dismal by our standards.

But like it or not, China is a competitive reality, and US soda ash producers have to do everything we can to reduce our costs in order to effectively compete. We remain the most efficient suppliers of soda ash in the world. But we need to continually look at our cost structure, both the costs we control, and those controlled by others, in order to sustain this leadership in the years ahead. If we are to maintain this industry's global leadership role we must partner with federal, state and local governments, and our critical energy and transportation suppliers in new cost sensitive relationships that recognize our mutual dependence on one another.

#### Industry Cost Reduction Initiatives

Our employees are already active partners in this effort. Over the last decade, U.S. soda ash producers have engaged in aggressive measures to maintain our global competitiveness. Restructuring within the U.S. industry has entailed continuing efficiency initiatives that have dramatically enhanced industry productivity. Our goal as managers is first and foremost to identify those ways we can be more efficient without sacrificing worker safety or environmental standards.

Unfortunately, this industry rationalization and restructuring has also come at a significant cost to Southwest Wyoming and our state's economy. Since 1997, employment in the Wyoming soda ash industry has declined 24%, from a high of 3,000 well paying jobs down to 2,300 at the beginning of this year, though we are producing similar volumes of product. This employment decline has particularly impacted the tax base and economy of Southwest Wyoming. Only the current boom in the state's energy production has served to partially mitigate and mask its negative impact on our region's economy.

Because of the continuing and aggressive steps taken by industry managers to reduce fixed costs, improve operational efficiencies and even curtail excess capacity, productivity of the industry has increased. But the combination of spiraling structural costs (employee health and safety, pensions and benefits, environmental protections, etc.), and the dramatic increases in energy and transportation costs, when coupled with intensely competitive international markets, have caused industry profitability to decline precipitously from 15% in 1997 to near zero today. This would be troublesome for any business, but particularly one that demands significant capital to reinvest in its business. As evidence of an increasingly competitive global market, the overall value of U.S. soda ash has steadily declined from \$77 per ton in 1997 to \$65 per ton today.

Others on this panel will discuss specific tariff and non-tariff trade barriers to US soda ash export growth and the welcome steps being taken by this administration to reduce them in Brazil, China and India. The Wyoming Congressional delegation has been a strong and consistent advocate for the US soda ash industry, exposing unfair international trade practices and suggesting ways the playing field can be leveled. Most recently you played a pivotal role in making certain that the Australian Free Trade Agreement included zero tariffs for US soda ash. We are hopeful that this Congress can still approve this agreement.

For the remainder of my testimony I would like to address three areas of spiraling cost increases that erode our competitiveness. We continue to look for every way to gain greater efficiencies. But we will not do so at the expense of the health and safety of our employees, or the environment. We believe we have reached the point of no return when it comes to industry initiated cost reductions. We therefore are looking to areas beyond our immediate control; those dependent on the actions of our suppliers and government, including the Congress, who we invite to join us in maintaining the health of the soda ash industry.

#### Reducing Energy Costs

First energy. While we are fortunate that Wyoming in particular is benefiting from the current energy boom, the rapidly escalating cost of natural gas has eroded our industry's profitability. While each of the soda ash companies in southwest Wyoming conserve power through cogeneration and/or the efficient use of electrical power, we are also each significantly dependent to one degree or another on natural gas; either as a direct fuel source and/or as part of the cost of electrical generation. It is not coincidence that the 150% increase in our natural gas prices over the last four years has contributed to the corresponding drop in our industry's profitability. And it is no coincidence nationally that when the price of natural gas began rising significantly in June 2000, a drop in manufacturing employment accompanied it.

We have asked energy producers to consider ways that they might mitigate the impact of these price

increases on large industrial users. Part of the solution to the energy-pricing problem for those of us who are customers is to be found in our own backyard. We are strong advocates for federal energy legislation that will encourage greater coal and natural gas production, and recognize that Wyoming is a state critical to meeting the nation's energy supply needs. Resolving the current pricing crisis takes a combination of policies. We must increase production of natural gas and increase use of coal for base-load electricity generation. These are ideas we know that you have long advocated, Madam Chairwoman, and we hope this congress will follow your lead and enact Energy legislation that, though not perfect, will accelerate the pace of increased energy supply.

It is in the best interests of energy suppliers to recognize that their long-term interests are served by a viable domestic manufacturing sector, one that can compete on a global scale. We would welcome recognition of our global situation by our energy suppliers and will become more aggressive in our own efforts to make them aware of ways to mitigate the impacts of rising natural gas prices on our global competitiveness.

#### Reducing Rail Costs

Second rail costs. As you know, all of us here from the "Trona Patch" are so called "captive shippers." We have only one major rail service that can transport our product to both domestic and foreign markets. Under existing regulations that govern rail transportation, shippers have very little recourse on how rail rates are structured. We must negotiate a carrier's quote for service for the entire length of a route, rather than for each segment; even where competition may be available for certain segments. This is why we have consistently advocated for competitive access to rail routes.

For year's legislation has been before Congress that would require the rail industry to do what all of us in the private sector do, compete for business. We believe it is in the railroad's long-term best interest. Legislation before the Congress sponsored by your colleague Congressman Baker of Louisiana, "The Railroad Competition Act" (HR 2924) would aim to bring greater competition to our rail transportation system. We would strongly urge its adoption as one small step in the right direction of bringing competitiveness back to rail competition.

The Union Pacific was in Southwest Wyoming before we were and is an important part of Wyoming. For the last 50 years we have been among their best customers. According to the UP annual report for 2003, we represent about 13% of the UP's total chemical shipments nationwide. But over the year's we have found ourselves assuming a greater and greater proportion of rail costs, including providing our own rail cars, and building loading and storage capacity.

We are now inviting the UP to recognize our financial situation and understand that if we are to sustain the large volumes that comprise our business we must be able to compete effectively internationally. Today, the cost of getting our product to the coasts for export is a significant increment that can enhance or inhibit our competitiveness.

#### Reducing Taxes, Fees and Royalties

Third, are taxes, fees and royalties. The royalties, taxes and fees we pay to federal state and local governments account for over 14% of our overall costs of doing business. These include federal royalties on soda ash, currently at 6% per ton, state severance taxes currently assessed at a 50 cents per ton of ore removed, the 8% royalties paid to the private landowner (Anadarko), our percent of local property taxes, and state emission fees, etc. Today our four Wyoming soda ash operations pay \$100 million in federal, state and local taxes and fees, even as our own profitability nears zero.

While we clearly agree that we need to pay our fair share, the current export decline has caused us to evaluate where we might legitimately have justification for some relief, at least until we can again see measurable export growth. Particularly in light of the major restructuring that has occurred. While we have not done any economic analysis to verify, I think it is reasonable to assume that by enhancing the ability of our companies to compete for global business, we can again begin to grow capacity and return more to the local, state and federal tax base.

We are therefore very pleased that you have chosen to introduce legislation that would temporarily role back the current federal royalty from 6% to 2% for a period of five years. This measure we believe is consistent with the basic "conservation of the resource" philosophy embodied in our nation's public lands laws and is

consistent with the original royalty set forth in the sodium leasing statute (i.e., 2%). A proposed increase in federal royalties in 1993 from 4 to 8 percent (later compromised to 6%) was justified by the Bureau of Land Management on the basis of the rapid growth in export markets for US soda ash. But since 1997, the export growth for US soda ash has been flat. With the tariff and non-tariff barriers being erected in key markets is expected to remain so.

In obtaining value for the natural soda ash resources in southwest Wyoming, we are, by definition, a partner with the federal government. We would expect a good business partner to be responsive to market conditions in tough times today, just as they were eager to raise rates in better times just a few years ago. If the justification for raising royalties was based upon export growth then, doesn't it makes sense that royalties need to be adjusted when export volume has stagnated? Certainly your legislation is a welcome step in that direction and we fully support it.

#### Conclusion

Madam Chairwoman, your legislation to reduce the soda ash royalty is an illustration of how we can work together to meet the demands of the current international trade climate. If enacted, it will help US soda ash producers maintain their price competitiveness. This is the sort of initiative that we hope will signal to some of our important suppliers our shared commitment to being good stewards of a valuable resource indigenous to Southwest Wyoming. We believe by working together we can restore export growth, expand capacity, and most importantly, bring back job growth to our local economy.

Thank you for the opportunity to present our views. I would welcome any questions or comments.